

***RECOMMENDATIONS FOR THE IMPLEMENTATION OF THE FINANCE PROTOCOL
SUSTAINABLE OF PANAMA***

Banking Association of Panama

Sustainability Commission

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Page 2**Introduction or global and local context**

Sustainability practices in banking are increasingly important to keep us competitive and profitable. These practices also have a social, environmental and reputation, which is of great relevance to each organization, as a corporate citizen in your community and country. Traditionally you would not think that a bank would focus on sustainability aspects, but the opposite is true. You have to recognize the environment and consequences of the inefficient use of our resources in our countries, environments and businesses to guarantee its continuity. Being the key financial sector in the development of the country through our entire value chain.

To transform the economic development of our country, to a sustainable development in all its aspects, profitable initiatives are required that improve our quality of life such as community. Sustainability considers the principle of the Triple Income Statement or "*Triple Bottom Line*" in English, which integrates economic prosperity, social responsibility and environmental Protection. It is essential that banks and companies identify the key and material aspects for our businesses, from the perspective of sustainability. This is where each of us must begin.

Achieving a transformation towards sustainability requires setting an example, at the level of each one of us and of our organizations ensuring that our initiatives and projects add value in the three edges: social, environmental and economic. Giving the example is can create a new reality, a set of successes that permeate to others and we they benefit everyone. Initially, the individual impact is small, but with each step you good habits are consolidated, new standards are created, and transformation is achieved.

The Panamanian Banking Center is one of the main financial systems in the world and a leader in the region. Honoring that leadership position, it can and should include the adoption of practices that conserve and protect the environment and allow sustainable development. Committing to contribute to this effort will be an initiative of great value not only for the sector but for the country.

The key aspects to consider are the following:

- (1) Identify how the sustainability strategy adds value to organizations
- (2) To be successful, it is essential to have the organization's commitment to through the support of senior management
- (3) You should start out simple, but start, and gradually grow. Adopt practices sustainability, it is not a fad, nor a speed race, it refers to a change cultural, through a gradual and continuous project to improve our practices and results.
- (4) Involve business areas from the beginning, in the development of initiatives and that these issues should be part of the financial institution's strategy
- (5) Take advantage of guides on best practices and shared experiences, as you seek this protocol, to start and grow.

(6) There is no single or ideal solution. Each institution must adopt the practices and guidelines according to your reality, and what adds value to it. These practices do not refer to

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fill out forms, fulfill requirements and publish them, but to generate value in our business decisions and results.

The potential benefits for institutions adopting sustainability practices, include:

- 1) reducing risks
- 2) the possibility of identifying new clients and business opportunities
- 3) new funding opportunities, through multilateral and international institutions
- 4) the reduction of expenses, through the more efficient use of resources or adoption of better technologies
- 5) Contribute to the goals that the country has in terms of the Sustainable Development Goals (ODS) and Nationally Determined Contribution to Climate Change Mitigation of Panama (NDC for its acronym in English)

General objective

The purpose of this voluntary protocol is to establish guidelines and recommendations, proposing safeguards, controls and good practices to limit the exposure of the banks to environmental and social risks, but even more, to add value to our institutions.

Such a protocol allows us to ensure that we are not complicit in any way in the violation of Human Rights or the degradation of our communities, especially those most vulnerable. When banking institutions have this type of controls we contribute to the social development of our country, by ensuring that the development is orderly and sustainable.

Strategic pillars

1. Governance

Adherence to this protocol must arise as a commitment of the Board of Directors and the Senior Management of the institution, since the guidelines and the impulse are given from the leadership necessary for it to be welcomed within the organization. This commitment should be part of the DNA of the company and must be communicated at all levels of the same. From the leadership, policies, processes and programs that promote social responsibility and Environmental should be part of the organization's strategy and be integrated into its way of do business.

It is important to define the scope and impact that environmental and social management systems must have within the main business line and the strategic decisions of the organization, and that is why we will try to provide some recommendations that will help organizations to organize the governance of their systems.

Recommendations:

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- Effectively apply an environmental and social management system, the organization, the business areas, middle management and especially senior management must be committed to applying sustainable criteria within the line of business.
- Have a department or unit within the organization that is in charge of to comprehensively manage and evaluate the environmental and social issues inherent to the activities and projects financed by the organization and investment decisions
- Define at the highest organizational level, the sustainable criteria, scope and limits with those that will be governed by the financial institution once its management system is implemented environmental and social.
- Have personnel trained in the evaluation of environmental and social impacts, who should be in charge of evaluating potential environmental risks and social inherent in the activities and projects to be financed.
- Have a periodic administrative forum type committee or similar, at the highest level of the organization, where specifically environmental issues and social, in addition to evaluating related policies at the strategic level of the institution.
- Have measurement controls to assess the impact inside and outside the organization once the Environmental and Social Management System begins to be implemented.
- Establish key initiatives and indicators, and report them inside and outside the institution, to stakeholders.
- Invest in eco-efficiency actions or initiatives to save costs, promote among your customers and live what is promoted abroad. Commitment to Environmental responsibility begins within the organization and then goes incentivizing along the value chain towards customers and the supply chain catering.
- Offer financial products that promote the development of renewable energies and innovative products for the environment.
- The commitment to this responsibility and to the promotion of these values must be included in the Code of Ethics, Corporate Governance manuals and the policies company generals.

Monitoring and Follow-up of the organization's management

The monitoring and follow-up of the indicators of social responsibility and environmental risk and social, are a fundamental part of their management. The progress of the initiatives and the impact they are having internally and externally, as well as on the business.

To achieve this goal, it is important that monitoring systems are included within of any process or program with resources assigned to them.

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The main objective of monitoring and follow-up is to verify compliance with the customer requirements and commitments, related to environmental and social issues, as well as such as possible impacts not detected during the evaluation process.

For this, it is recommended to carry out a process of monitoring and follow-up to clients or projects financed through visits, reports sent by the client, or reports issued by external experts for support.

2. Analysis of Environmental and Social Risks

It is suggested or recommended to the financial institutions that are signatories of this Protocol work on the implementation of the following strategy:

1. Develop within each organization the structure, credit and / or risk policies and their respective processes that include environmental and social variables within the analysis risk in credit or investment decisions that are approved by the financial institution.

The inclusion of these aspects within the analysis process will allow maintaining portfolios healthier credit by including new risk variables.

2. Apply to the financing products and services that it offers to its clients, either for national or international portfolio, a complete analysis of the principles of environmental protection and social that governs the country's legislation and its regulatory entities, as well as, it is recommended include compliance with performance standards within the evaluation process established by the International Finance Corporation of the World Bank (IFC) and / or the Equator Principles.

3. In addition to carrying out an analysis task, the processes and procedures that are designed will be used to categorize as required in Decree 123/2009 of the Panamanian regulation in matters of social and environmental management or any regulation that replaces or complements the risks associated with financed or investment projects. However, you can also apply international standards or those designed by each institution in order to mitigate the risks.

4. For those financed or investment projects whose social or environmental risk is cataloged as High or Medium, it is recommended to have specific procedures that allow the correct mitigation of the identified risks. In the case of high complexity, it is advisable to have the advice of an external expert.

5. Financial institutions may define and include in their process / procedure a list of exclusion for those activities / sectors that they consider to be of high social or and that, based on their experience, they consider that their possible mitigation for such risks

it is out of your control. It is recommended to align these exclusion lists with the lists published by multilateral organizations such as IFC, IDB, Proparco, DEG, among

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others; Since this is the case, it will facilitate the obtaining of funding for Financial Institutions. signatories to obtain funding from these organizations.

6. In the same way, the policies and procedures that are defined may include criteria of applicability or materiality to apply different levels of analysis according to the risk that generates the type of product, activity or sector.

7. Develop legal clauses to be included in the documentation of the loans or investments, which establish compliance with environmental and social laws, regulations or applicable permits.

8. Develop training programs within each institution and at the Association level. Banking in Panama that help build internal capacities in local banking for the implementation of the environmental and social management systems that are developed.

9. It is recommended that, at least once a year, the results of the application of the procedure of the Environmental and Social Management System, in order to verify its correct operation and, if necessary, make the corresponding changes.

10. Consider that within AGREEMENTS No. 008-2010 and No. 009-2017 of the Superintendency of Banks "Through which provisions are issued on Management Comprehensive Risk "includes within the types of risks (article 4) the“ Social Risk and Environmental".

3. Green Products

They are financial products such as green financing lines, credit cards, green bonds, among others, aimed at financing projects that promote the use of sustainable resources, environmental protection and competitiveness of the sectors productive activities of the country, contributing to the improvement of the quality of life of the population and positively impacting the environment.

They are products created to provide a service or financing to natural persons, legal entities, companies or financial intermediaries that promote the development of projects that lead towards a sustainable, economic and social development, based on a better use and use of resources and the generation of added value, as well as mitigating effects of climate change.

- Green financing lines and environmental projects

Green financing lines seek to encourage the creation and development of projects that promote the protection and conservation of the environment, in addition to the adoption of sustainable production processes by already established companies.

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Said projects must have the review and verification of the environmental benefit to be finance and / or mitigate damage to it, since what is really important is obtaining results together with the successful and sustainable development of the projects.

- Types of projects that apply for green products

The purpose of these credits is to prevent, manage or mitigate environmental impacts in addition to to be directed towards the adaptation and mitigation of climate change. They apply but I don't know limited to the following types of projects:

1. Energy efficiency
- two. Generate or increase the use of renewable energy
3. Sustainable construction
- Four. Ecotourism
5. Implementation of clean technologies.
6. Energy Self-sufficiency
7. Reforestation projects
8. Conservation of biodiversity
9. Waste management
10. Water and sanitation

4. Eco-efficiency

Eco-efficiency refers to the reduction in ecological impacts that translates into a increase in the productivity of resources, which can also create an advantage competitive.

The financial institutions that are signatories of this Protocol undertake to work to implement a corporate policy that integrates the principles of sustainability in the internal operations, promoting and ensuring eco-efficiency in its operations at the national.

Eco-efficiency in financial institutions seeks to promote in their internal processes the sustainable consumption of natural resources or goods and services derived from them. In order to it is recommended that the financial institution consider:

- Define and contemplate environmental and social criteria in purchasing processes and contracting services.
- Develop policies and procedures for managing and monitoring impacts environmental aspects of internal processes.
- Seek the use of sustainable construction criteria when carrying out adaptations or new constructions.

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- Simplify operational procedures to promote maximum efficiency in the use of natural resources and derived materials.
- Promote internal incentives to manage natural resources efficiently.
- Adopt effective measures to reduce the generation of waste, its adequate disposal and implementation of reuse and / or recycling.
- Develop internal communication campaigns that promote among the employees of the institution good practices in eco-efficiency.
- Ensure that you have a governance model that gives monitoring and visibility to these issues.

The efficient use of the resources used in the daily operation of the financial institutions, not only allows reducing costs and increasing competitiveness, but also that facilitates the reduction in dependence on natural resources, as well as their goods and associated services.

This policy should include but not be limited to:

- a. Establishment of objectives to reduce water consumption and waste generation.
- b. Setting goals for more efficient, cleaner and more efficient energy consumption responsible.
- c. Application of an ethical and sustainable purchasing policy.
- d. Provide financial incentives to promote green efficiency.

5. Disclosure

1. The signatories of this protocol undertake to send to the Commission of Sustainability of the ABP an annual report that makes visible the progress of the financial institution regarding this protocol.

It is recommended:

2. Execute a training plan among the collaborators of financial institutions to publicize the principles and benefits that are obtained with the implementation of sustainable finance.
3. Integrate sustainability issues into the organization's annual report.

Page 9**Responsibilities of the Sustainability Commission upon the entry into force of the Protocol**

1. Review of the protocol once a year by the ABP Sustainability Commission.
2. Development of an annual event to publicize the progress in the implementation of this protocol in each of the signatory entities.
3. Establish a cooperation link from the ABP with local and international organizations related to this topic, to carry out training on the topics contained in the Protocol such as ARAS, Green Products, Eco-efficiency, climate change, among others.
4. Carry out outreach campaigns to financial institutions to achieve greater understanding of the topics contained in the protocol.

Other considerations

The signatories of this Protocol reserve the right to suggest new proposals and actions aimed at improving compliance with the object of this Protocol, which may be implemented on a voluntary basis or being included in the Protocol's work plan, previous acceptance of all its signatories.

Signatories may unilaterally terminate their participation in the Protocol or the Protocol itself, without thereby being obliged to pay compensation, fine or any other outlay. Notification of these decisions will be made to the Committee of Sustainability of the Banking Association of Panama.

Panama City, July 2018

